

1 MISSOURI TAX CREDIT REVIEW COMMISSION
2 201 WEST CAPITOL AVENUE
3 SENATE COMMITTEE HEARING ROOM 2
4 JEFFERSON CITY, MISSOURI 65102
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7 PUBLIC HEARING FOR WITNESS TESTIMONY
8

9 SEPTEMBER 12, 2012
10 (Commencing at 10:00 a.m.)
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1	A P P E A R A N C E S
2	COMMISSION MEMBERS:
3	Senator Chuck Gross, Co-Chairman
3	Steven J. Stogel, Co-Chairman
4	Troy Nash, Member
4	David Zeimermann, Member
	Craig Van Matre, Member
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5 Mike Wood, Member
6 Representative Sam Komo, Member
7 Shannon Weber, Member
8 Mark Gardner, Member
9 Melissa Randol, Member
10 Tom Reeves, Member
11 Penney Rector, Member
12 Alan Marble, Member
13 Luana Gifford, Member
14 Bill Hall, Member
15 Jim Anderson, Member
16 Pete Levi, Member (via telephone)
17
18 Commission Staff:
19 Chris Pieper, Acting Director Economic Development
20 Sallie Hemenway, State Budget Director
21 Division of Business and Community Services
22
23 Reported by:
24 Patsy A. Hertweck, C. R.
25 Midwest Litigation Services

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4

1
2 P R O C E E D I N G S
3 (September 12, 2012)
4 MR. PIEPER: As you know, the
5 Commission was charged in 2010 by Governor Nixon to look at
6 and review all the state's credit programs, 61 of them, and
7 make recommendations with respect to those programs.

8 One of the things that the Commission did
9 early on at its very first meeting in respecting the
10 Governor's charge was to adopt, as Co-Chair Stogel called
11 it, a do-no-harm principle to ensure that there certainty
12 with any recommendations and that they would only be
13 prospective in nature. And so deals that were underway,
14 investments that have been made would not be jeopardized,
15 and I think that's something that has lended to the
16 credibility of the Commissioner's report that we're not --
17 there was no effort on the part of the Commission to affect
18 existing deals.

19 As the Co-Chair Gross mentioned, the
20 Commission broke up into several subject matter committees.
21 You can see the list there. Each of them made
22 recommendations with respect to specific tax credit
23 programs in that area or global issues that affect all tax
24 credits or tax law issues and affect all tax credits.

25 Throughout September, October and November

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1 of 2010, there were committee meetings, many by phone, some
2 in person, public hearings that the Commission held
3 throughout the state. The Commission heard testimony for
4 24 hours, more than 24 hours worth of testimony from 100
5 witnesses, and all of that information, all of those
6 submissions, including the written, the testimony is all on
7 the Tax Credit Recommissioned website, and that website
8 will be updated. It actually has already been updated to
9 reflect some of this recent activity, but as Commissioners
10 receive submissions from interested folks, all of that will

11 continue to be posted on the website so that the public can
12 view all the information that you all will be considering.

13 The 2010 report, the Commission's report was
14 issued in late November. There were sort of global
15 recommendations and then recommendations with respect to
16 specific programs. And the estimates at that time, based
17 on FY '09 authorizations, was that if all the
18 recommendations in that report were adopted, there would be
19 a savings of about \$220 million annually. There's a lot of
20 ways to look at what the potential savings are.

21 Because the recommendations are prospective
22 in nature, they're -- you know, some of the recommendations
23 did not result in immediate savings, but they put the State
24 on a path to get significant savings down the road and to
25 lower the overall potential outstanding liability that the

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6

1 State has with respect to the tax credit programs.

2 Generally some of the overall
3 recommendations the Commission had, looking at a periodic
4 review and reauthorization process, a Sunset review
5 process, rather than an appropriations process, at the time
6 in 2010 and still to date, there's been a lot of discussion
7 of different mechanisms for reviewing tax credits,
8 including subjecting them to the appropriations process,
9 this Commission recommended that rather than an annual
10 appropriations process and the uncertainty that that can
11 cause, a periodic review and a reauthorization process was
12 a more effective way to review those programs.

13 The Commission recommended that all programs

14 that currently don't have call-backs or failure of the
15 applicant to perform, create the jobs and do what they said
16 they were going to do, to impose those call-backs. There
17 was some testimony and discussion regarding issues related
18 to the cost per unit or the cost per beneficiary on some
19 projects.

20 The Commission heard testimony, I think,
21 regarding a project in Cape Girardeau where there were
22 estimates regarding how much it cost for each unit, and I
23 think that one of the recommendations was to monitor that
24 -- those kinds of things to ensure that there's some cost
25 reasonableness built in.

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1 The Commission recommended eliminating,
2 reducing carry-forwards and carry-backs to address budget
3 certainty. There were some ambitious modifications
4 recommended to federal law and some somewhat less ambitious
5 recommendations for modifications to state law to help to
6 alleviate some of the negative federal tax consequences
7 associated with some of our state tax credit programs, like
8 the historic program and the low-income housing program.

9 And then also there was a recommendation
10 regarding an exchange or a buy-back of credits based on
11 some of the changes that would make those new credits more
12 efficient and perhaps entice holders of current credits to
13 exchange their less efficient credits.

14 One of the recommendations from the
15 Commission's set of recommendations that the folks who
16 watch the budget were the most interested in were some of

17 the recommendation regarding caps on programs. And this
18 Commission recommended that the existing \$140 million for a
19 tax credit cap fee produced 75 million.

20 For the low-income housing tax credit, the
21 recommendation was actually to shorten the term of the
22 credit from a ten year credit to a five year credit;
23 thereby, making the credit itself more efficient and more
24 equity going into the project, but then imposing a cap of
25 \$16 million a year on that five-year credit with those

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1 state law tax changes that I discussed before.

2 For Brownfield Remediation, the Commission
3 recommended imposing a cap on that program -- that program
4 is currently uncapped -- and recommended lowering the
5 neighborhood preservation program.

6 One of the recommendations that was hotly
7 debated among the Commission and then as man of you know in
8 the legislature was the proposal to eliminate the property
9 tax credit for renters. That was a recommendation that did
10 result or would result in a significant savings immediately
11 because of the annual aspect of that credit. The
12 recommendation was to keep that for property owners, but to
13 eliminate it for renters.

14 There were also recommendations on specific
15 programs, eliminating them, consolidating them, improving
16 on them, and many of those recommendations came from the
17 committees themselves, which became intimately familiar
18 with the specific attributes of the credits that they were
19 looking at.

20 On the economic development side, the
21 Economic Development Committee took their task first as
22 establishing kind of some broad parameters or some first
23 principles by which Economic Development tax credits should
24 be judged. And some of those principles are there up on
25 the screen, but a lot focus on a one-to-one return on

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9

1 investment for the use of state economic development
2 incentives to where, in Co-Chair Gross' words, the
3 buck-for-the-buck philosophy where if the State's going to
4 spend a dollar, we should get a dollar back on economic
5 development incentives.

6 There was also recommendations to --
7 specifically to improve our existing Economic Development
8 programs to embody some of those recommendations, and there
9 was also a recommendation to completely unify all of our
10 various economic development incentives into one program
11 that, again, embody those principles.

12 There was also a recommendation enact an
13 Angle tax credit, and that credit will be funded out of the
14 film tax credit, but that was eliminated.

15 The recommendations regarding the social
16 contribution tax credits, in addition to specific
17 recommendations that Bill Hall's committee made about some
18 of those specific programs, there were some overall
19 recommendations about reducing the percentage amount of the
20 credits from 70 percent for like a neighborhood assistance
21 program tax credit down to 50 percent, from 50 percent down
22 to 35. Bill can articulate the tax rationale for that,

23 more articulately than I can, but the idea is that the
24 percentages are too generous at this point, and for a 70
25 percent credit, I think we saw that the taxpayer, an AMT

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1 taxpayer actually makes money off of those same credits
2 because the subsidy is so deep.

3 There were also recommendations to increase
4 the size of the donor pool by allowing foundations and
5 other folks that aren't included in the definition of
6 taxpayer be included, making all those social contribution
7 tax credits transferable so that we could get more donors
8 and raising the per-person contribution limits.

9 There were specific recommendations out of
10 the Distressed Communities and Ag Environment Committees.
11 I won't go into the detail other than they recommended
12 improvements to those existing programs, and also there
13 were some recommendations to eliminate some programs.

14 With respect to Historic Preservation, as I
15 mentioned, the big ticket recommendation, I guess, the one
16 I think that was the most noticed was the reducing the
17 overall annual cap from 140 million to 75. There was also
18 a reduction of the current, what's called the Gold Coast
19 Provision of the Historic Tax Credits where there's a
20 limitation on its use to rehab individual,
21 non-income-producing residences.

22 There was also a prohibition on stacking
23 with other programs, in particular the one from housing tax
24 credit, and then also prohibitions related to -- for
25 development fees.

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1 With respect to low-income housing, the very
2 significant recommendation in terms of improving the
3 overall efficiency of the program, was to reduce the term
4 of the credit from ten years to five years. Obviously
5 there are budget ramifications in doing that, and so in
6 order to address those, the recommendation was to put a cap
7 on the 9 percent and make that state tax law change that
8 would help less of the benefit of the low-income housing
9 tax credit going to the federal government as opposed to
10 the project.

11 There was also a recommendation to eliminate
12 the 4 percent credit and some other things to allow the
13 credit to be issued more efficiently for the project.

14 So that's all not new to many of you, but
15 some of this hopefully is. I'm sure as, you know,
16 following the work of the Commission that you all at least
17 have heard of some of the activity that's happened with
18 regard to tax credit reform, and in particular some of the
19 recommendations that this body put forward.

20 In the 2011 legislative session, the
21 co-chairs and many of the Commission members were also
22 present, actually presented the report to a legislative
23 hearing and answered questions from Senators. I think it
24 might have been in this room. And there was legislation
25 that was introduced in both chambers that adopted many of

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1 the Tax Credit Review Commission's recommendations. Not
2 all, but I think it's a testament to the quality of the
3 work product that this Commission did that there was a menu
4 of policy options that the legislature could pick from.
5 And many of them they did pick and put into legislation.

6 There was -- towards the end of that
7 session, there was legislation that included tax amnesty
8 through the Department of Revenue as a revenue generating
9 policy idea, and some economic development incentives. And
10 in that package also many of the recommendations for tax
11 credit reform were included. That legislation came very
12 close to passing, and -- but didn't make it to the finish
13 line.

14 There was a 2011 special session, and the
15 topic of that special session was economic development, tax
16 amnesty, and tax credit reform, and again made it close but
17 didn't make it all the way to the finish line.

18 In 2012, there was again legislation that
19 was introduced that adopted many of the Tax Credit Review
20 Commission's recommendation. That legislation did not
21 pass. There were some attempts towards the very end of
22 session to incorporate tax credit reform into an effort to
23 reauthorize many of the social and contribution tax credit
24 programs that had sunset. And to couple those two together
25 again that -- that didn't get done.

1 So that's the conclusion of my presentation.
2 I'd be happy to answer any questions. Although we have --
3 we're going to have some fascinating charts and graphs here

4 from Linda that I don't want to keep you from.

5 SENATOR GROSS: Questions for Chris?

6 (None voiced.)

7 MR. PIEPER: Thank you.

8 SENATOR GROSS: Thank you for being
9 here. Good morning, Linda.

10 MS. LININ: Good morning.

11 SENATOR GROSS: Proceed whenever you're
12 ready.

13 MS. LININ: Okay. Linda Linin, State
14 Budget Director.

15 I am going to focus on tax credits and how
16 they fit into our budget and revenue picture at the state
17 level.

18 As the co-chairs know, they typically don't
19 get discussed a lot when we're dealing in the budget world
20 in the Capitol building. And so this is an attempt to
21 weave tax credits into what we're looking at from a budget
22 and revenue perspective.

23 With that, what we're going to talk about is
24 a budget with and without tax credits very quickly;
25 revenue, kind of the recent trends and historical

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1 comparisons of what our revenue has been looking like; then
2 bringing in tax credits, recent trends on those tax
3 credits, and when I talk about tax credit numbers, I'm
4 always talking about redemptions that would actually hit
5 our treasury in any given year is what I'm going to focus
6 on.

7 And then finally, comparisons of various
8 programs where tax credits fit into some of our other
9 priority programs such as education.

10 We're going to talk a little bit about what
11 I told you, the official spending pie and then adding in
12 tax credits and then breaking down a little more detail how
13 tax credits fit into the budget picture.

14 This slide is going to look familiar to a
15 lot of you who listen to me regularly give budget
16 presentations. This is our general revenue spending pie,
17 and how that is typically broken down, and you can see
18 elementary and secondary education is the large wedge at
19 36.4 percent, and you can see others with human services at
20 just under 30, higher education just over 10, and the other
21 components there. Well, this is our \$8 billion general
22 revenue budget, but what you will see is tax credits are
23 never mentioned on this chart. And typically when we're
24 talking about budget, they are not.

25 So on the next slide, I have added in tax

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1 credits to kind of give you an assessment of how those fit
2 into our overall budget picture. Total expenditures then,
3 of course, have gone up by the \$600 million worth of tax
4 credit redemptions in fiscal year '12. I assumed that
5 those would continue at that level, 629 million. Tax
6 credits then take up 7.3 percent of our overall budget pie
7 at that point. Every other slice percentagewise is a
8 little bit lower than they would have been before. So you
9 can get a kind of a feel for how tax credits fit into that

10 overall spending picture.

11 The next slide goes into a little bit more
12 detail, and let me just explain it briefly before I go into
13 it. It looks at the fiscal year 2013, so that's the
14 current budget year appropriation for some key programs,
15 mainly by department, and then compares to that fiscal year
16 2013 appropriation level for general revenue, what the
17 2012, so last year's, actual redemptions for tax credits
18 looks like in comparison.

19 So you can see elementary and secondary, of
20 course, at the top at \$2.9 billion worth of general revenue
21 appropriations in fiscal year '13, social services next,
22 higher education next. Then comes tax credits. Total tax
23 credits of 629.5 million in actual redemptions in fiscal
24 year '12. That's where those fit into the picture of where
25 we spend money.

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1 Below tax credits are the entire budget for
2 Department of Corrections. All of the institutional
3 spending on corrections in the state of Missouri, as well
4 as the entire budget for the Department of Mental Health.
5 Mental health includes a Bureau of Health, community
6 services, forensic services, plus all of our residential
7 and community services for individuals with adult
8 disabilities. So both of those lower than our total tax
9 credit redemption.

10 If you break out -- take the non-senior tax
11 credits only, in other words, remove the property tax
12 credit, you have 511.9 million in tax credit redemptions in

13 '12.

14 Below that level employee benefits. That's
15 all the health care, retirement, all other employee
16 benefits for our state employees. Department of Health is
17 lower than that by quite a bit, and then judiciary next
18 down at 170 million.

19 Now looking at the individual tax credits,
20 the -- what I call the big three, low-income housing,
21 historic and senior low-income housing was at 162 million
22 by itself; historic at 134 million; senior property at 118
23 million. Each of those by themselves is larger than any of
24 the spending categories below that line.

25 So you can see below that line are things

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1 like public safety, elected officials, public debt, all of
2 those other areas. I've also put out, you can see,
3 bracketed all of those things below the line total 608.3
4 million. I point that out because all of those combined
5 are less than the total that we spent on tax credits in
6 fiscal year '12.

7 In addition, at the bottom of this page, you
8 can see I've bracketed Economic Development, Public
9 Defender and all other. That's 140.8 million. What we
10 spend on economic development outside of tax credits plus
11 what we spend on the Department of Agriculture and Natural
12 Resources and assorted other are smaller all combined than
13 low-income by itself.

14 Turning to revenue now. We're going to look
15 at recent general revenue collection trends as well as

16 historic comparisons.

17 The first chart is basically it is our net
18 general revenue collections up through fiscal year 2008.
19 Fiscal year 2008 was the last normal year before the
20 national economic downturn had a very serious negative
21 impact on our revenue.

22 If hypothetically our revenue would have
23 continued growing at its normal pace of 3 1/2 percent per
24 year, that upper line shows where you we would have been in
25 revenue as of last year at roughly 9.2 million. Three and

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1 a half percent is typical now. It's lower than it was, you
2 know, a decade ago, which growth was closer to 4 percent.
3 So we have slowed down, but this chart uses that lower
4 number of 3 1/2 percent growth.

5 where we actually were in fiscal year 2012
6 was 7.4 billion. So I have between where we actually were
7 and where we would have historically been of about a
8 billion and eight, in that general range, in collections.

9 The next slide breaks this down just a
10 little bit more by looking at our big -- the big pieces of
11 our revenue. Individual income tax obviously State of
12 Missouri that's our big revenue source for our general
13 revenue. And as you can see, general revenue collections
14 from the individual income tax at 5.2 billion at the last
15 normal year in '08. The low point in fiscal year 2010, we
16 were down to 4.4 billion. We are projecting to be back up
17 to 5 billion in the current year. That's this year's
18 projection.

19 we're a little bit behind right now. So we
20 hope we get there, but if we do, we'll still be about 200
21 million below where we were back in '08.

22 Sales tax is the next big piece of the
23 revenue pie in Missouri. Billion nine back in '08, down to
24 a billion seven for the low point. We are anticipating
25 getting back up to just under a billion nine. We're

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1 actually kind of close on sales tax collections right now
2 for the year. Individual we're well behind; sales tax
3 we're pretty close to our estimate.

4 Corporate and all other obviously make up
5 the very small portion of the overall. Falling from 863
6 million in '08 down to 609 million at the low point.
7 Hoping that will get back up to 663 million. That includes
8 corporate franchise, county foreign insurance, and assorted
9 other revenue sources into our general revenue fund.

10 The next slide just to kind of give you an
11 assessment of where we are compared to where we could be
12 under the Hancock limit. For those of you not familiar
13 with the State budget world, we have the Hancock limit that
14 limits our revenue to a percentage of personal income. And
15 we compare where we are on our revenue compared to Missouri
16 personal income each year to make sure we stay below that
17 Hancock lid. If we don't, we have to refund money to
18 taxpayers, which we actually did a couple of years back
19 when. Some of you will recall that.

20 Right now we are 3.8 billion below where we
21 could be based on that Hancock instrument. More

22 specifically, this is basically the same look at it because
 23 the Hancock limit is based on personal income. You can see
 24 we've fallen from our general revenue collections being at
 25 about 4.1 percent of Missouri personal income and the 3.2

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1 percent.

2 The actual Hancock lid is 5.6. So we could
 3 be at 5.6. We did well, well below that for many years
 4 now.

5 Turning to tax credits. I'm going to look
 6 at tax credits kind of interwoven with revenue. I'll look
 7 at growth and redemptions, and then some of the larger tax
 8 credits.

9 This first chart shows you general revenue
 10 collections with the red line, and you all have
 11 black-and-white handouts. Welcome to the Budget Office.
 12 We don't do anything in colors. So sorry about that.

13 The upper line tax credit redemptions. If
 14 you're wondering about how these numbers were picked, if
 15 we're kind of making it look more dramatic than it is,
 16 we're not. The ratio on these two axis is always 15 to 1.
 17 So the slopes on these two lines really ought to be the
 18 same if revenue and tax credits were keeping at the same
 19 pace. They're obviously not. Net GR collections is
 20 obviously a much lower growth than are tax credits.

21 This looks at a ratio of tax credits. I
 22 know this Commission actually had this information in front
 23 of them when they worked last time, this ratio of credits
 24 to net general revenue.

25 The upper line is all tax credits, including

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1 the senior property tax credit. The lower line I've backed
2 those out, but you can see we've gone from a ratio of 6.2
3 percent. That fell a little bit, but then came back up,
4 and then has now risen to a point that we're at 8.6
5 percent. So tax credits take up 8.6 percent of net GR
6 collections.

7 The next chart just shows you tax credit
8 redemptions by fiscal year, and again this is actual
9 redemptions, money out of the treasury. So it doesn't
10 necessarily mirror the issuances or authorizations.
11 There's probably some lag there, but it kind of gives you
12 an indication anyway.

13 So redemptions have increased quite steadily
14 in recent years. We did have a dip after that big increase
15 of 9, but we're coming well back up at 629.5 million.

16 This chart just shows you the largest ones.
17 We do have much more detail, if the -- if the Commission
18 would like it, on all of the tax credits historically. We
19 can provide that. This just shows you the big ones,
20 low-income housing at 164 million, historic at 134,
21 property tax at 118, and then a big drop before you get
22 down to the next one of Missouri quality jobs. These 12
23 combined make up 89 percent of what was redeemed in fiscal
24 year '12.

25 Finally we're going to turn to state

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1 comparisons. This is comparing various programs, how we do
2 compared to other states, and then looking at where we rank
3 for the big two, which is low-income housing and historic.

4 So the first chart that we have is a chart
5 -- flip to the next. There we go. This is Morgan Quitno
6 Press. They have an annual report that ranks states on
7 various types of spending and other activities. They use a
8 consistent methodology, and so I typically try to use them
9 because you can have a good historical picture of how
10 states are doing compared to each other.

11 If you look at our per-capital state and
12 local government spending on K through 12, Missouri ranks
13 number 34 at 1,652 per-capita compared to the US average of
14 1,881.

15 I put in the next row because it's important
16 to point out that as a percentage of our income, we
17 actually do better than average. We -- we rank 16th. So
18 when you look at how much money we have to spend, we're
19 above average on spending for K through 12 at -- right at
20 16.

21 Per capita state and local government
22 expenditures on higher education we rank 42nd at \$627 per
23 cap. Per-capita state and local government revenue -- I
24 put this in just to kind of give you an assessment of how
25 much money we have to spend compared to other states.

1 we're at 47th when you look at per cap, we're at 46th when

2 you look at our revenue as a percent of personal income,
3 and when you just look at state and don't look at the
4 local, we rank 43 and 44 on those same statistics.

5 How did we do on tax credits, the big two?
6 This has been updated with the most recent information that
7 we can. I did work with Chris to come up with these
8 numbers. I will say that there is no easy state comparison
9 for tax credits. Unlike everything else that you just saw,
10 which is an easy comparison, picking up a book, it's hard
11 to actually find comparisons between states. So this is
12 the best we could do with the information that we had.

13 On low-income housing, we used the same
14 source that this Commission looked at last time, just
15 updated it from more recent information. And as you can
16 see on low-income, Missouri ranks number three of the
17 states -- California number one, Georgia number two,
18 Missouri number three. And then a pretty big drop off
19 before we hit number four, Massachusetts.

20 Historic tax credits, we rank number two.
21 This is also from the same source that you looked at
22 before, just a more recent report. The National Park
23 Services does a report on historic tax credits, and for
24 those we rank number two, 365 million for Illinois. So
25 we're slightly behind them. Missouri is number two.

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1 Pennsylvania number three.

2 So again, just kind of a summary of that,
3 and we'll then we done and available for any questions if
4 you might have them.

5 Low income, we're at number three, historic
6 number two, K-12 number 34, and high education 42 when
7 we're compared to other states.

8 SENATOR GROSS: So on per-cap basis,
9 historic and low income, you know, we can do the math, but
10 looks like California is huge.

11 MS. LININ: Yeah, California is huge.
12 we could do that math because we've got the numbers. we'll
13 get that to you on a per-cap basis. You don't have to do
14 it.

15 SENATOR GROSS: Questions for Linda?

16 MR. STOGEL: And if anyone wants
17 additional information, how best to route it to you, like
18 if somebody wants to know authorizations or outstanding
19 credits that we got last time? Do we --

20 MS. LININ: I will make sure you have
21 my contact information. My office is right over there.

22 MR. STOGEL: Okay.

23 MS. LININ: So you're welcome to walk
24 in any time, but I will get you my phone contact and have
25 all that provided to you.

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1 MR. STOGEL: So in terms of the
2 Commission members, they can funnel everything to Senator
3 Gross and to me. we'll funnel it to you, and then
4 disseminate it to everybody, but there will be a request
5 for information. And then we'll post that on the website.

6 MS. LININ: Sounds great.

7 MR. STOGEL: Thank you.

8 MS. LININ: Senator Gross looks like he
9 has a question.

10 SENATOR GROSS: No, I don't think so.
11 Thanks, Linda.

12 MS. LININ: Okay.

13 SENATOR GROSS: Okay. A list of folks
14 who wanted to testify, first it's Doyle Childers. Doyle,
15 can you keep it to three minutes?

16 MR. CHILDERS: I think I can probably
17 get done with that.

18 SENATOR GROSS: Thank you, sir. Go
19 ahead and state your name so the court reporter can get it.

20 MR. CHILDERS: My name is Doyle
21 Childers. I'm here representing Fulcrum McIntosh and also
22 the wood waste industry.

23 During the previous Commission meetings, the
24 industry really didn't do very much. They, I guess, took
25 it for granted that all the numbers would come out, and

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1 it's a very diverse industry. It started out -- and one of
2 the reasons why our firm was actually retained to present
3 this was I was here in the early '80s up through the '90s
4 and everything, and when we were passing the tax credits it
5 dealt with the wood waste industry.

6 When that happened, EPA was coming down on
7 the timber industry in the state, and basically was going
8 to put them out of business because of sawdust piles and
9 wood waste piles. Some of them were 20, 30 acres. They
10 were a real problem for the environment at that time.

11 So the wood waste industry came together
12 with the legislature and passed a tax credit that would
13 allow, subsidize basically, the hauling and collecting of
14 wood waste, put it into the tax -- into a charcoal industry
15 and more later the wood pellet industry.

16 Most people do not realize how large that
17 is, but basically, except for the Bootheel, it runs from
18 roughly following I-44, everything south of I-44 and then
19 overlapping to the west somewhat.

20 AT that time, there were about 600 sawmills,
21 there were a number of other industries. Now it's about
22 300. I'll pass this out to you, but I can give you some
23 real quick information about it. Today there's about 12
24 charcoal plant operations and several wood pellet
25 operations. The total is about 750 direct employees of

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1 those.

2 But then when we go out, there's about 300
3 sawmills, and they have about 2,600 people. We got out
4 beyond that, and each one of those uses about 25 loggers.
5 And then when you go on beyond that with all the suppliers
6 and everything that are out there, all the hauling, all the
7 transportation, all the different activities that support
8 it, you go on out to about another 30 to 50 suppliers for
9 all these businesses.

10 And then when you go out beyond that,
11 there's about an average of 14 major -- 1,400 major
12 landowners that sell timber to the industry each year. And
13 all of that is dependent on these issues. I think part of

14 the -- of the maybe confusion last time about it was
15 recommended to be eliminated was that most people confused
16 it with what was a clean-up later in the '90s a tax credit
17 to put in air emissions equipment on all these charcoal
18 plants that had emissions.

19 when that was done, that is completed, and
20 that tax credit is sunsetted, and it's not being utilized.
21 So I think part of it was the industry's fault for not
22 coming in to the Commission to advise them of what effect
23 this would have because EPA is still around, and they still
24 take a very distinct interest in what happens with this --
25 with waste and with the timber waste across the state.

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1 One other issue that I might mention, the
2 National Forest Service just announced, I guess in the last
3 year, that they are going to do a lot of wood waste,
4 reducing wood waste out in the National Forest Service
5 areas. That is going to increase also the amount of fire
6 damage that could happen, and the wood waste industry is
7 the primary means of removing a lot of that waste and
8 reducing the fire danger in a lot of these communities.

9 That is just very briefly the -- of where
10 we're at. The tax has never been capped in the past. It
11 usually runs about 3 1/2 to 4 1/2 million is the number,
12 and when the economy is up, it's higher, and when it's
13 down, it's lower. But it's about 6.6 percent of 1 percent.
14 So 6/10s of 1 percent is about the amount of the total tax
15 credit compared to the total amount.

16 And that is basically where we're at.

17 There's been legislation introduced to extend it. It ends
18 here in 2013, and there is -- with a cap put on it of 4.5
19 million has been the recommendation.

20 Be glad to answer any questions.

21 SENATOR GROSS: Any questions for Mr.
22 Childers? (None voiced.)

23 Thanks for being here, Doyle.

24 MR. CHILDERS: Thank you. And I have
25 -- I'll give you the information.

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1 SENATOR GROSS: Yeah. We're going to
2 take just a slight pause. They need -- I think Levi's
3 going to try to get on the line here. He's been trying to
4 get on the line.

5 MR. LEVI: I am on the line. I've been
6 on the line the whole time.

7 SENATOR GROSS: Well, they lied to me
8 then, Pete. I'm sorry. I'm glad you're -- glad you're on
9 the line with us.

10 So then next Brian -- Brian Long is here.
11 Brian is going to make a presentation or pass out some
12 information or something?

13 MR. LONG: Yes. Thank you, Chairman
14 Gross, Chairman Stogel, members of the Commission. My name
15 is Brian Long. I'm the director on the Council on Public
16 Higher Education in Missouri. We are the association of
17 the 13 public four-year universities in our state.

18 And yes, Chairman Gross, on behalf of our
19 association, I've left a letter with Sallie, which she has

20 promised to duplicate and distribute to the Commission.
21 The contents of that letter are quite simply that -- that I
22 come to you on behalf of our association with no advice, no
23 requests, no recommendations, but our sincere thanks and
24 gratitude for your willingness to reengage this important
25 work.

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1 we believe it's critical to the budget
2 process. Sometimes we -- it's easy to say this work is
3 thankless. It's not because one association is saying
4 thank you. So we do appreciate it. I'm sure there's
5 others who feel the same way. But we do say thank you for
6 your hard work.

7 If there's anything that I can do or our
8 association can do, or perhaps more practically, the
9 members of our association, the individual public
10 universities, can do to assist you from meeting space to
11 whatever it might be, Sallie has my contact information and
12 we'd be happy to provide that assistance to you.

13 So again, on behalf of our association,
14 thank you.

15 SENATOR GROSS: Thank you. Questions
16 for Brian? What's the name of association?

17 MR. LONG: It's -- you -- Senator, you
18 would probably remember it as COPHE, but those are the
19 initials that stand for the Council on Public Higher
20 Education.

21 SENATOR GROSS: Okay. Thank you.

22 Next is Otto, Otto Pagan.

23 MR. PAGAN: Good morning, Mr. Chairman,
 24 members of the Commission. Otto Pagan speaking on behalf
 25 of the Missouri National Educational Association and

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1 joining in the self-help group of former legislators staff.

2 I will be brief and very similar to the
 3 previous witness, Brian Long. We mostly want to say thank
 4 you to the Commission for its excellent work already.
 5 Thanks for continuing that work.

6 We want to maybe just inspire you to bear in
 7 mind that as we look at job creation, we need to bear in
 8 mind that not only are there important things to do in
 9 terms of tax and spending, but also that we need to make
 10 sure that we never let up on our pursuit of investment in
 11 K-12 and higher education.

12 The education round table is well
 13 represented on this group already, and I just want to add
 14 our voice to the chorus education round table associations
 15 Missouri, and joining that as endorse the recommendations
 16 of the Commission in their prior report. We hope that the
 17 legislators will be able to move forward.

18 I want to point out that it's very important
 19 that we have kind of all members of the team -- all of
 20 members of the orchestra in public education able to work
 21 together. We've really seen some --

22 SENATOR GROSS: Oh, I wasn't aware that
 23 you had endorsed the report from two years ago.

24 MR. PAGAN: That --

25 SENATOR GROSS: Can you give us a copy

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1 of the letter or whatever form it was in, just so it's on
2 the record?

3 MR. PAGAN: It's a fairly recent.

4 SENATOR GROSS: Okay.

5 MR. PAGAN: It's a fairly recent
6 development. It was at a -- I guess the most recent round
7 table meetings.

8 SENATOR GROSS: Just get it to anybody,
9 staff.

10 MR. WOOD: We got it. Between Melissa
11 and I, we got it.

12 MS. RANDOL: And I have it here.

13 SENATOR GROSS: Somebody get it to us.
14 Go ahead.

15 MR. PAGAN: I just want to point out
16 that it's really important to have all hands on deck. We
17 need, obviously, elected officials, and you all are really
18 helping in moving that -- that all forward. We need the
19 elected officials to play their part, the school boards,
20 the administrators and staff and students. We need to be
21 able to move forward.

22 As you've probably are aware, we have some
23 challenges in state funding, and so it's interesting to
24 look at the figure that says Missouri ranks 34th in the
25 nation in terms of State spending. Hidden underneath that

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1 is a projectory.

2 Twenty years ago, the State was providing
3 about 30 percent of what school districts spend, and the
4 school districts were spending about 60 percent, and the
5 feds the remaining 10 percent. We're there again now.

6 Ten years ago, we were much closer to the
7 national average. The national average is both the local
8 and the state kick in roughly equally, about 45 percent.
9 So when you saw those graphs that Linda had showing what's
10 happened to us in terms of down -- you know, early part of
11 the first decade of the century a downward trend in
12 revenues and another downward trend ten years later.

13 Those have played out in terms of whatever
14 the appropriations committees were able to hit in terms of
15 more funding, and that spills out into all kinds of things
16 in terms of meeting the challenges in education. We've
17 seen an increase in poverty to the point where now
18 essentially the average kid in our public schools is
19 identified as living in poverty based upon the eligibility
20 for free or reduced price lunch.

21 About two years ago, that was the first time
22 that had ever been true, but there had been a steady
23 increase in that indicator throughout the decade. There's
24 extra resources that it takes. So school districts aren't
25 just giving them a flat formula. They're dealing with more

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1 on their plate in terms of trying to make sure all their
2 kids are able to focus and be in school and ready to learn.

3 So again, we really just appreciate the work
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4 that this Commission has already done. As you already
5 know, the high quality debate that's been taking place, but
6 there's specifics to the proposal that we encourage the
7 legislators to move forward on.

8 And we are part of the national
9 organization. We can connect up with educators to give you
10 educator point of view on things that have gone on. You
11 know, that was looking at -- again at what's gone on in
12 other states, or maybe ideas for improvement or
13 renovations. We'll be happy to be a part of that
14 conversation and provide feedback that educators and other
15 partners of the council can provide.

16 With that, I'd be happy to try to answer
17 your questions.

18 SENATOR GROSS: Questions for Mr.
19 Pagan? (None voiced.)

20 MR. PAGAN: And I have a leave-behind.
21 I've had copies of my written notes.

22 SENATOR GROSS: Okay. Thanks.

23 That's all we have on the list. If there's
24 any late-comers that would like to make a presentation?
25 (None.) No.

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1 All right. Steven, where do you want to go?

2 MR. STOGEL: Anybody -- since we're all
3 here, anybody that would like to talk about schedule or
4 process the next steps or --

5 MR. WOOD: A couple of questions. Are
6 we going to be able to get the list of issued and redeemed,

7 I mean, are we going to get a redeemed list? Do we know of
8 the authorized and issued, I guess --

9 MR. STOGEL: I'm making a note to track
10 that down and try to get it out early next week.

11 MR. WOOD: And then last time for many
12 of the economic development ones that we looked at we were
13 using the lending model. Is that still the model that is
14 being used? I think there's some kickback to that model.
15 I mean, is that what I've heard? Was that one taken out of
16 the budget, or --

17 MS. HEMENWAY: The money was taken out
18 of the budget this year. The Department still uses the
19 model to evaluate our tax credit and to report the cost
20 benefit to the general revenue of the State as compared to
21 general revenue of the State for the Department's programs.

22 MR. STOGEL: Sallie, is it possible to
23 get an update?

24 MS. HEMENWAY: Yes. We -- the
25 Department can provide you the list -- the latest quarter

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1 tax credit information on an authorized, issued and
2 redeemed for all of the state tax credits as well as
3 provide you the latest of what we call Form 14, which is
4 what we provided to you the last time. That's a document
5 that includes a variety of information about the individual
6 tax credit program, including the cost benefit itself.

7 MR. STOGEL: If you can route that to
8 me, I'll make sure --

9 MS. HEMENWAY: Yes. I will provide it
Page 32

10 to you, and you can use it.

11 MR. STOGEL: -- it gets distributed to
12 everybody.

13 SENATOR GROSS: Senator Komo?

14 SENATOR KOMO: Will that be total
15 issue? I mean, so if they're issued the last three years,
16 what's the total accumulation?

17 MS. HEMENWAY: The --

18 SENATOR KOMO: Do we know how many --
19 how much is in the system, I guess?

20 MS. HEMENWAY: What the form -- what
21 the Form 14 offers is the last three years of historical
22 information and then projects the current year and then the
23 projections for the next two years. And it also offers an
24 outstanding number.

25 So it's the math of the authorizations, less

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1 redemptions already -- issuances and redemptions already
2 counted and what's outstanding for that particular tax
3 credit at the time.

4 SENATOR KOMO: So we can know exactly
5 the total amount?

6 MS. HEMENWAY: Yes.

7 MR. ANDERSON: About four months, the
8 Review Center did a report on economic development
9 incentives comparing all across the country, all 50 states.
10 It's excellent reading for any and all, especially I think
11 for the Economic Development Committee, but it really
12 compares those incentives with other states and focuses on

13 return on investment. And the Review Center came in about
14 four months ago with that report.

15 And frankly, acknowledge the Review
16 Commission's work in '10 as a best practice for other
17 states to follow. So it would be good reading I think for
18 the Commission.

19 MR. STOGEL: If you forward it to --

20 MR. ANDERSON: I can get a copy, and
21 Sallie has a copy as well, but we'll get it to you. I
22 think you would find it to be of great interest as we
23 reengineer.

24 MR. STOGEL: Yes, sir. Thank you.

25 SENATOR GROSS: Anything else? (None

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1 voiced.) Okay. So then we will get together and talk
2 about and see who exactly has agreed to continue their
3 service on the Commission, make sure that we don't have any
4 holes or gaps that are crucial.

5 As Steven mentioned earlier, I'm sure we
6 still have chairs for all those Commission committees, and
7 -- and get word out to everybody on who's on what
8 committee, remind you there, and then the chairs can take
9 off, right, and do their work with the five week or so.
10 That -- good?

11 MR. STOGEL: I think so. Thank you all
12 very much for signing up again, and we have our charge from
13 the Governor. Thank you.

14 SENATOR GROSS: A reminder from Sallie
15 is if your committee is going to get together, then we --

16 in following the Sunshine law, we need to get proper
17 notices out.

18 MS. HEMENWAY: I can help with that.

19 SENATOR GROSS: And Sallie will help do
20 that. So just make a quick call whenever you're planning
21 on doing something like that to make sure we stay legal.
22 And -- and everything will continue to be posted at
23 TCRC.mo.gov. No www. TCRC.mo.gov.

24 Thank you all for your service.

25 (Thereupon, the proceedings were concluded at 10:45 a.m.)

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1 CERTIFICATE OF REPORTER

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3 I, PATSY A. HERTWECK, Professional Court
4 Reporter and Notary Public within and for the State of
5 Missouri, before whom the foregoing proceeding was taken,
6 do hereby swear that the aforementioned was held at the
7 time and in the place previously described.

8 IN WITNESS WHEREOF, I have hereunto set my
9 hand.

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Patsy A. Hertweck, Court Reporter

17 Notary Public, State of Missouri

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